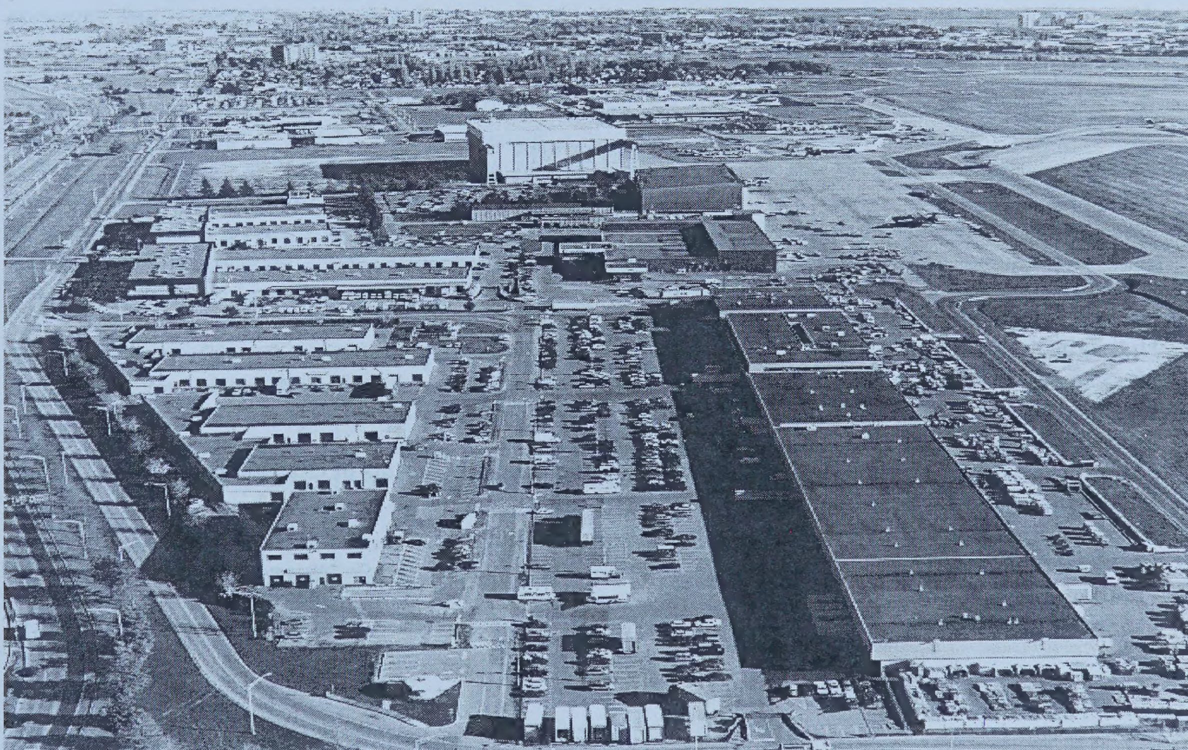

IAT AIR CARGO FACILITIES INCOME FUND
ANNUAL REPORT
For Year Ended December 31, 2006

Above: IAT owns 11 buildings at Vancouver International Airport with a total rentable area of 741,485 square feet.

IAT AIR CARGO FACILITIES INCOME FUND

The IAT Air Cargo Facilities Income Fund (the "Fund") is an unincorporated, limited purpose trust established on March 15, 1997 under the laws of the Province of British Columbia that holds all of the common shares (the "Shares") and subordinated notes of International Aviation Terminals Inc. (the "Company" or "IAT").

IAT is in the business of owning and leasing buildings at key Canadian airports that are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT's properties are constructed on land leased at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities acting on behalf of the Government of Canada in these cities.

The Trust Units are traded on the Toronto Stock Exchange under the symbol ACF.UN.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Some of the information included in this Annual Report contains forward-looking statements. Such statements are made in reliance on this cautionary statement and the "safe harbour" provisions of Section 138.4 of the Securities Act (Ontario) and similar legislation in other jurisdictions. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those in the forward-looking statements and investors should not rely on the forward-looking statements as predictions of future events. The events or circumstances reflected in forward-looking statements might not occur. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indicators of whether, or the time at which, such performance or results will be achieved. There is a significant risk that estimates, predictions, expectations, forecasts, conclusions and projections will not prove to be accurate, that assumptions may not be correct and that actual results may differ materially from such estimates, predictions, expectations, forecasts, conclusions or projections.

Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", plans", "pro forma", "estimates" or "anticipates", or the negative of these words and phrases, or similar words or phrases. Forward-looking statements can also be identified by discussions of strategy, plans or intentions. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and may not be realized.

The Fund's success also depends upon economic trends generally, various market conditions and fluctuations and those other risk factors discussed under the heading "Risk Factors" of the Fund's Annual Information Form filed on www.sedar.com. Investors are cautioned not to place undue reliance on forward-looking statements, which are based on what management believes are reasonable assumptions in light of information currently available and speak as of the date of this report or as of the dates indicated in the statements. All forward-looking statements of the Fund or IAT, including those set out in this Annual Report, are qualified in their entirety by this cautionary statement. The Fund and IAT assume no obligation to update or supplement forward-looking statements.

IAT AIR CARGO FACILITIES INCOME FUND
HIGHLIGHTS

(dollars in thousands, except per trust unit data)	Years Ended December 31, 2006	2005
Financial position		
Net investment in income properties	$ 64,763	$ 69,127
Mortgage loans	15,727	16,352
Unitholder's equity	41,040	42,051
Operating results		
Rental revenues	$ 17,333	$ 16,222
Operating costs and leasing and marketing fees	9,528	8,863
Adjusted EBITDA (1)	7,363	6,867
Earnings (loss) for the year	3,657	(6,164)
Funds from operations (FFO) (2)	6,065	5,467
Year-end occupancy	82.8%	80.6%
Average occupancy	84.2%	79.7%
Rentable square feet	1,141,732	1,141,391
Cash position		
Cash and cash equivalents - beginning of the year	$ 6,307	$ 4,153
Change in cash and cash equivalents	(148)	2,154
Cash and cash equivalents - end of the year	6,159	6,307
Distributions payable December 31	(1,533)	(1,324)
Cash available for operations (3)	$ 4,626	$ 4,983
Unitholders' equity		
Unitholders' equity - opening balance	$ 42,051	$ 50,853
Contributions (4)	-	2,818
Earnings (loss) for the year	3,657	(6,164)
Distributions declared to unitholders	(4,668)	(5,456)
Unitholders' equity - closing balance	$ 41,040	$ 42,051
Total distributions declared per trust unit	$ 0.67	$ 0.82

Notes:

(1) Adjusted EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). The Fund's method of calculating Adjusted EBITDA may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations for the definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to cash, a GAAP measure.

(2) Funds From Operations ("FFO") is not a recognized measure under GAAP. The Fund's method of calculating FFO may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations for the definition of FFO and a reconciliation of FFO to earnings, a GAAP measure.

(3) Cash available for operations is not a recognized measure under GAAP. Cash available for operations is defined as cash at the period end less the distribution to be paid to unitholders in the following month. Management believes this to be an appropriate supplemental measure because cash available for operations represents cash that is available after distributions are paid. However, cash available for operations should not be viewed as an alternative measure of cash since it does not represent cash at the balance sheet date. Further, cash available for operations may not be comparable to that of other real estate issuers. The financial highlights above show a reconciliation of cash available for operations to cash, a GAAP measure.

(4) On September 23, 2005 the Fund issued 360,000 units at $8.21 per unit to a wholly owned subsidiary of AMB Property Corporation, Headlands Realty Corporation. The cost of this issue was $138,050.

MESSAGE TO UNITHOLDERS

We are pleased to provide you with the Annual Report of the IAT Air Cargo Facilities Income Fund for the year ended December 31, 2006.

This year marked the first full year after a significant change in the management of the Fund, with AMB Property Canada Ltd. ("AMB Canada"), a subsidiary of AMB Property Corporation® ("AMB"), serving as the manager of IAT and the administrator of the Fund. AMB is a leading global developer and owner of industrial real estate, focused on major hub and gateway distribution markets throughout North America, Europe and Asia. Since AMB Canada has become involved in the management of IAT, its expertise and resources have resulted in a positive impact on the operating results of IAT's facilities.

As you will read in this annual report, 2006 was a good year for the Fund. During 2006, the Fund continued to focus on improving occupancy and cash flows, as well as conserving cash to fund our growth, capital and leasing requirements. As a result, although Vancouver air cargo volumes in 2006 were the same as 2005, our average occupancy during 2006 was 84.2%, and our year-end occupancy was 82.8%, both improvements from our 79.7% average occupancy and 80.6% year-end occupancy rates in 2005.

For 2006, the Fund reported consolidated earnings of $0.52 per unit, adjusted earnings before interest, tax, amortization, impairment charges and accretion expenses for the year of $7.4 million, and Funds from Operations for the year of $6.1 million, representing $0.87 per unit, each of which was a significant improvement from 2005. I am pleased to note that we out-performed our business plan in the third quarter of 2006, and as a result, we were able to declare distributions in 2006 of $4.7 million, or $0.67 per unit, an increase of $0.07 per unit from the annual distribution we had established at the beginning of 2006.

It is with regret that we announce that Michael Coke has decided to retire as Chief Financial Officer of AMB and as President and Chief Executive Officer of IAT, mid-year 2007. Mike's decision is based on his desire to spend more time with his young children and family. Mike's experience and leadership since AMB Canada came on board as our administrator and manager has been invaluable, and on behalf of the trustees and unitholders, I would like to thank him for his contributions and input. While we will miss Mike's leadership, we look forward to working with Alison Hill, Senior Vice President – Private Capital at AMB, who will succeed Mike in his role as President and CEO of IAT once he retires. Alison also has extensive senior management experience in the real estate industry, and we are confident in her ability to lead IAT and to help the Fund and IAT achieve their objectives in 2007 and beyond.

On behalf of the trustees, I express my appreciation to our investors for their continued support and confidence in the Fund and IAT. We look forward to meeting with you at the Annual General Meeting of Unitholders of the Fund to be held at 2:00 p.m. on June 13, 2007 at IAT's offices in Richmond, British Columbia.

Respectfully submitted on behalf of the Trustees,

Robert J. Mair, Q.C.
Chairman
IAT Air Cargo Facilities Income Fund
March 23, 2007

FUND STRUCTURE

IAT Air Cargo Facilities Income Fund is a limited purpose trust created under the laws of British Columbia on March 15, 1997 pursuant to a declaration of trust. The Fund owns all of the Shares of IAT and $55.9 million aggregate principal amount of unsecured subordinated notes of IAT (the "Notes"), consisting of $2.9 million principal amount of subordinated notes (the "Senior Subordinated Notes") due September 30, 2010 and $53.0 million principal amount of subordinated notes (the "Subordinated Notes") due June 10, 2027. IAT leases space in 18 air cargo facility buildings to businesses operating in the air cargo business and other aviation related businesses. The Fund's principal office is located at Suite 2000 – 5000 Miller Road, Richmond, British Columbia V7B 1K6.

The Fund does not carry on any active business. It is restricted to holding the Shares and Notes of IAT and, on a temporary basis, cash and short-term investments. The affairs of the Fund are supervised by three Fund Trustees. The affairs and operations of IAT are supervised by its Board of Directors and management is provided under certain management agreements made with AMB Property Canada Ltd. ("AMB Canada") (formerly IAT Management Inc.), a subsidiary of AMB, a publicly traded U.S. corporation (NYSE: AMB). Unless the context requires otherwise, the terms "we", "us" and "our" refer to the Fund, IAT and their other controlled subsidiaries.

The Fund is a taxable trust under the *Income Tax Act* (Canada) and is subject to taxation on its income for the year less the portion paid or payable to the unitholders. Since all income is paid or payable to the unitholders in the year, the Fund has no taxable income.

Distributions paid by the Fund are generally taxable in the hands of the unitholders. They are comprised of the interest and dividend income received by the Fund and, for the years 1997 through 2010, will also include an amount equivalent to the amortized portion of costs of issuance of the Trust Units which will be treated as a reduction of the adjusted cost base of the unitholders' Trust Units and will be non-taxable.

Upon the disposition or deemed disposition of a Trust Unit, the unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the adjusted cost base of the Trust Unit and any reasonable costs of disposition.

Proposed Tax Law Changes Regarding Income Trusts

On October 31, 2006, the Department of Finance of the Government of Canada announced proposed changes to the Canadian federal taxation of certain publicly traded trusts and limited partnerships ("specified investment flow throughs" or "SIFTs"). The proposed changes call for income earned by SIFTs, and any distributions made by SIFTs, to be taxed as if the income were earned, or the distributions were made, by a publicly listed corporation. For SIFTs that were publicly traded on or before October 31, 2007, the changes will not apply until the 2011 tax year, unless there has been "undue expansion" of the SIFT. The announcement indicated that real estate investment trusts ("REITs") would be excluded from the proposed treatment of SIFTs.

On December 21, 2006, the Department of Finance issued for public comment draft legislation to implement these proposals. There can be no assurance that the final form of the legislation will be the same as or consistent with the draft legislation or that such legislation will be enacted in the manner proposed or at all.

When the legislation, including relevant regulations, is in substantially final form, the Trustees and management of the Fund intend to review the legislation to determine whether the Fund will be entitled to rely on the proposed exclusion of REITs from the definition of SIFTs and from the application of the proposed tax.

Under the draft legislation, an income trust will be a REIT for a taxation year if it is resident in Canada throughout the year and meets the following conditions:

- the trust does not at any time during the year hold any non-portfolio property other than real or immovable properties situated in Canada;
- the trust's income and taxable capital gains from real or immovable properties during the year in question must be no less than 95% of its income for the year;
- at least 75% of the trust's income for the taxation year must be made up of income and/or taxable capital gains from real or immovable properties situated in Canada; and
- throughout the year the total fair market value of all real or immovable properties situated in Canada, cash and government debt must be equal to or greater than 75% of the trust's equity value.

The assets of IAT are leasehold interests in real estate located in Canada, which are responsible for more than 95% of IAT's income and currently are estimated by IAT to have a fair market value of more than 75% of the Fund's equity value. The Fund is continuing to monitor the progress of this legislation and, if necessary, will seek clarification from the federal government as to the Fund's status in relation to the REIT requirements.

If the Fund qualifies as a REIT, the Fund will not be subject to the proposed tax relating to SIFTs. However, if the proposed tax changes relating to SIFTs are implemented and the Fund does not qualify as a REIT, tax will be payable by the Fund on its income as if it were a publicly traded corporation and distributions by the Fund will be subject to tax (and eligible for dividend tax credit treatment) as if they were dividends of a publicly listed corporation. Such a result could be expected to reduce the distributable cash of the Fund distributions otherwise payable by the Fund.

Management of IAT

IAT contracts its day-to-day property management and leasing and marketing activities to AMB Canada pursuant to a property management agreement (the "Property Management Agreement") and a leasing and marketing agreement (the "Leasing and Marketing Agreement"), each of which automatically renews for a further ten-year term after the first ten year term that expires on September 14, 2015. The fees payable for the services under the Property Management Agreement and the Leasing and Marketing Agreement are 5.75% and 2.1%, respectively, of gross receipts of IAT. The property management fees are recoverable from tenants; the leasing and marketing fees are not. AMB Canada is also entitled, when applicable, to a fee equal to 6% of the cost of construction of certain improvements to leased premises, which is also not recoverable from tenants, and a 0.9% acquisition fee on the purchase price of any property that IAT acquires pursuant to the right of first offer under the terms of a non-competition agreement that AMB has entered into with the Fund and IAT.

Under the terms of the Property Management Agreement and the Leasing and Marketing Agreement, during the first 10 year term, IAT may exercise a no fault termination right in the event of a transaction that results in a change of control of IAT or, with respect to particular properties, a change of beneficial ownership of any of IAT's properties. During the second 10 year term, IAT will have the right to terminate at any time with 90 day's notice. A termination fee would be payable by IAT if such a termination results in the remaining properties generating an annual management fee of less than $0.8 million. Any such termination fee would be based on a 2.25 multiple of the basic management fees payable for the most recently completed four fiscal quarters. No other amount is payable by IAT in respect of any such termination for the costs and expenses that may be incurred by AMB Canada as a result of such termination, including its obligations to its employees. AMB Canada may terminate the management agreement at any time with at least one year's prior written notice.

The information contained in this Annual Report concerning the operations and financial condition and results of IAT is provided by IAT.

OPERATIONS OF IAT

IAT is in the business of owning and leasing buildings at key Canadian airports that are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT's properties are constructed on land leased at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities acting on behalf of the Government of Canada in these cities.

IAT controls approximately 1,141,732 square feet in 18 buildings on land leased by IAT at five airports. At December 31, 2006, the properties were 82.8% leased to 132 tenants and in 2006, the average occupancy of the properties was 84.2%. This represents an improvement from the 2005 year end occupancy level of 80.6% and average occupancy of 79.7%. Eleven of the properties, comprising approximately 741,000 square feet of space, are on approximately 61 acres of land at the Vancouver International Airport. A 52,000 square foot building at Vancouver, primarily leased by one tenant, is owned by a joint venture company in which IAT has a 50% interest.

IAT's customers operate businesses within the air cargo industry as well as within the aircraft maintenance industry. These tenants include passenger airlines (including Air Canada, WestJet and Harmony Airways), integrated freight carriers (including UPS, DHL International and BAX Global), air cargo handlers (including Swissport, WFS and Menzies Aviation), freight forwarders (including UPS-SCS, Schenker of Canada, Nippon and Yusen Air), customs brokers, government agencies and others. No tenant is responsible for more than 8% of IAT's total revenue. In 2006, 25 of IAT's tenants occupied space in IAT's buildings at more than one airport, the same number of such tenants as IAT had in 2005.

These businesses generally require direct access to airport infrastructure such as runways, passenger terminals, taxiways and secure service roads. Most of IAT's buildings are "airside" (buildings that are contiguous to or have direct access to airport infrastructure). Generally, "airside" buildings do not compete directly for tenants with "non-airside" buildings (buildings lacking such access). Consequently, IAT's results are more sensitive to the level of activity in the aviation industry than they are to the overall real estate cycle.

IAT's air cargo buildings are specifically designed for the needs of the air cargo industry. They have a modular design that permits a variety of configurations for tenants. Areas for lease can be expanded or reduced depending upon the needs of current and potential tenants, allowing IAT to respond to prospective tenant requirements using currently vacant space. A combination of specialized facilities and limited availability of suitable land means that "airside" buildings generally achieve rents above those paid for industrial or warehouse buildings in non-airport locations.

Typically, IAT enters into leases with tenants for terms of one to ten years. In 2007, leases representing approximately 22% of IAT's rentable space expire or become due for renewal at the tenant's option.

Unless otherwise indicated, all information in this management's discussion and analysis of financial condition and results of operations is effective as of March 9, 2007, all dollar amounts are in Canadian dollars and all audited numbers have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Caution concerning forward-looking statements

Some of the information included in this Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Such statements are made in reliance on this cautionary statement and the "safe harbour" provisions of Section 138.4 of the Securities Act (Ontario) and similar legislation in other jurisdictions. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those in the forward-looking statements and investors should not rely on the forward-looking statements as predictions of future events. The events or circumstances reflected in forward-looking statements might not occur. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indicators of whether, or the time at which, such performance or results will be achieved. There is a significant risk that estimates, predictions, expectations, forecasts, conclusions and projections will not prove to be accurate, that assumptions may not be correct and that actual results may differ materially from such estimates, predictions, expectations, forecasts, conclusions or projections.

Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", "plans", "pro forma", "estimates" or "anticipates", or the negative of these words and phrases, or similar words or phrases. Forward-looking statements can also be identified by discussions of strategy, plans or intentions. There is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and may not be realized.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- *failure to qualify as a real estate investment trust (REIT) under Canadian income tax legislation;*
- *changes in general economic conditions, in the aviation industry, or in the real estate sector;*
- *a downturn in Canada's economy or real estate conditions, or in the cities in which IAT's properties are located;*
- *actions of airport authorities at the airports on which IAT has facilities;*
- *non-renewal of ground leases by airport authorities or renewal at higher than expected rent;*
- *non-renewal of leases by customers or renewal at lower than expected rent;*
- *inability of customers to meet their lease obligations;*
- *increased operating costs or greater than expected capital expenditure requirements;*
- *difficulties in identifying properties to acquire and in effecting acquisitions on advantageous terms and the failure of acquisitions to perform as we expect;*
- *failure to obtain necessary financing;*

- *losses in excess of IAT's and the Fund's insurance coverage;*
- *unknown liabilities acquired in connection with IAT's properties or otherwise;*
- *changes in local, provincial and federal regulatory requirements; and*
- *environmental uncertainties.*

The Fund's success also depends upon economic trends generally, various market conditions and fluctuations and those other risk factors discussed under the heading "Risk Factors" in the Fund's Annual Information Form filed on www.sedar.com. Investors are cautioned not to place undue reliance on forward-looking statements, which are based on what management believes are reasonable assumptions in light of information currently available and speak as of the date of this report or as of the dates indicated in the statements. All forward-looking statements of the Fund or IAT, including those set out in this Annual Report, are qualified in their entirety by this cautionary statement. The Fund and IAT assume no obligation to update or supplement forward-looking statements.

General

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations concerning the operations and financial condition and results of the Fund and IAT reviews significant developments in the consolidated results of the Fund and IAT during the year ended December 31, 2006. Additional information relating to the Fund and IAT is contained in the Fund's Annual Information Form and the Consolidated Financial Statements of the Fund and IAT that are available through the internet at www.sedar.com.

The IAT Air Cargo Facilities Income Fund (the "Fund") is an unincorporated, limited purpose trust established on March 15, 1997 under the laws of the Province of British Columbia that holds all of the common shares (the "Shares") and subordinated notes of International Aviation Terminals Inc. (the "Company" or "IAT"). The Trust Units are traded on the Toronto Stock Exchange under the symbol ACF.UN. The Fund does not carry on any active business and derives all its income from the shares and unsecured subordinated notes (the "Notes") of IAT. Accordingly, the Fund is entirely dependent on the results of operations of IAT.

IAT is in the business of owning and leasing buildings at key Canadian airports that are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT leases land at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities acting on behalf of the Government of Canada in these cities. The management of IAT is provided under certain management and governance agreements made with AMB Property Canada Ltd. ("AMB Canada"). As of December 31, 2006, IAT leases 1,141,732 square feet in 18 buildings. The properties were 82.8% leased as at December 31, 2006, as compared to 86.0% leased as at September 30, 2006, 80.6% leased at December 31, 2005 and 81.3% at December 31, 2004. Average occupancy for the years ended December 31, 2006, 2005 and 2004 were 84.2%, 79.7% and 79.9%, respectively.

IAT's revenues and earnings are affected primarily by occupancy rates of its facilities, the lease rates received from tenants and the recovery from tenants of its building operating costs. The amount of cash available for payment of interest and dividends to the Fund from IAT is also affected by these same factors, as well as the amount, timing and recoveries of major recurring maintenance and capital expenditures. The occupancy, lease rates and recoveries are dependent on demand for the movement

of air freight and the overall airline industry. Similarly, the demand for the movement of air freight is dependent upon the overall economy and international trade.

Distribution Policy

Annually, the Fund determines a minimum annual distribution, to be paid in quarterly instalments to Unitholders, based upon the anticipated earnings, cash flow, and capital reserves of IAT and expenses of the Fund. The Fund receives from IAT quarterly interest payments on the Notes and any dividends that may be required to meet the quarterly instalment of the annual minimum distribution to Unitholders. The Fund distributes to Unitholders all funds received from IAT, net of the Fund's expenses.

The Senior Subordinated Notes carry a fixed interest rate of 10% per annum. The interest on the Subordinated Notes is determined quarterly at an amount equal to the amount by which 92.5% of IAT's earnings before interest, amortization, impairment charges and accretion and after provision for current taxes payable exceeds debt service requirements (principal and interest) on mortgage debt and the Senior Subordinated Notes, subject to a minimum rate of 6% per annum and a maximum rate of 12.5% per annum.

Based on historical and anticipated cash needs, IAT retains a reserve for capital expenditures and working capital and other requirements. If IAT concludes that it has additional cash beyond what it needs for expected capital expenditures and working capital requirements, the directors of IAT may, in their discretion, declare a dividend to the Fund, which would then be available for distribution by the Fund to unitholders.

As a result of the improved operating results for the second half of 2006, the Fund's quarterly distribution was $0.22 per unit for the fourth quarter, raising the total distribution for the year 2006 to $0.67 per unit. This represents an increase of $0.07 per unit from the previously announced planned annual distribution of $0.60 per unit based on IAT's 2006 Business Plan.

The Trustees of the Fund and AMB Canada have reviewed the Fund's full year 2007 business plan and established an annual distribution rate for 2007 of $0.68 per unit, representing a quarterly distribution rate of $0.17 per unit, based upon anticipated operating results. The 2006 and 2007 distribution rates reflect the Fund's decision to retain cash to make significant investments in buildings and tenant improvements.

Of the December 31, 2006 cash balance of $6.2 million, $1.5 million was distributed to unitholders in January 2007 and $1.4 million is expected to be used to fund capital expenditures in 2007, leaving $3.3 million available for acquisitions, working capital and other requirements. The amount budgeted for capital expenditures in 2007 is estimated based on current information. No assurance can be given that the estimated amounts may not differ depending on actual commitments made in 2007.

Quarterly distributions are payable to unitholders of record on the last day of each calendar quarter and are expected to be paid on or about the 15th day of January, April, July and October of each year. As at December 31, 2006, there were 6,966,368 units issued and outstanding, the same number of units issued and outstanding as at December 31, 2005. The following table sets forth the composition of the distributions declared and paid to unitholders for each quarter and in aggregate for the years 2006 and 2005 and on a per unit basis. Per unit amounts are approximate.

Summary of Quarterly Distributions Declared by the Fund

	March 31		June 30		September 30		December 31		Total	
(dollars in thousands, except per unit data)	$	$ per unit[3]	$	$ per unit[3]	$	$ per unit[3]	$	$ per unit[3]	$	$ per unit[2]
2006										
Interest income from IAT	1,139	0.16	1,072	0.15	1,135	0.16	1,495	0.22	4,841	0.69
Distributions:										
Interest income net of expenses[1]	936	0.14	959	0.14	905	0.13	1,507	0.22	4,307	0.62
Dividend from IAT	82	0.01	59	0.01	113	0.02	-	-	254	0.04
Non taxable return of capital[2]	27	-	27	-	27	-	26	-	107	0.01
Total distribution declared	1,045	0.15	1,045	0.15	1,045	0.15	1,533	0.22	4,668	0.67
2005										
Interest income from IAT	1,300	0.20	1,406	0.21	1,133	0.17	1,268	0.18	5,107	0.76
Distributions:										
Interest income net of expenses[1]	1,216	0.19	1,325	0.20	1,026	0.16	1,116	0.16	4,683	0.71
Dividend from IAT	200	0.03	100	0.02	205	0.03	163	0.02	668	0.10
Non taxable return of capital[2]	20	-	20	-	20	-	45	0.01	105	0.01
Total distribution declared	1,436	0.22	1,445	0.22	1,251	0.19	1,324	0.19	5,456	0.82

Notes:

(1) Current year interest distributions are net of general and administrative expenses of the Fund as of the distribution declaration date.
(2) The return of capital is determined and apportioned annually as at December 31.
(3) Per unit data is rounded to the nearest cent.

The following cash distributions on the Trust Units were paid during the years ended December 31, 2006 and 2005. Per unit amounts are approximate.

Summary of Quarterly Distributions Paid by the Fund

	January		April		July		October		Total	
(dollars in thousands, except per unit data)	$	$ per unit[1]	$	$ per unit[1]	$	$ per unit[1]	$	$ per unit[1]	$	$ per unit[1]
2006										
Interest income net of expenses	1,116	0.16	936	0.14	959	0.14	905	0.13	3,916	0.57
Dividend from IAT	163	0.02	82	0.01	59	0.01	113	0.02	417	0.06
Non taxable return of capital	45	0.01	27	-	27	-	27	-	126	0.01
Total distribution paid	1,324	0.19	1,045	0.15	1,045	0.15	1,045	0.15	4,459	0.64
2005										
Interest income net of expenses	1,532	0.23	1,216	0.19	1,325	0.20	1,026	0.16	5,099	0.78
Dividend from IAT	-	-	200	0.03	100	0.02	205	0.03	505	0.08
Non taxable return of capital	7	-	20	-	20	-	20	-	67	-
Total distribution paid	1,539	0.23	1,436	0.22	1,445	0.22	1,251	0.19	5,671	0.86

Note:

(1) Per unit data is rounded to the nearest cent.

Operating Results

Highlights

(dollars in thousands, except lease rate, percentage and square feet data)	For the Years Ended December 31, 2006	December 31, 2005	December 31, 2004[(1)]	% Change	% Change
Lease activity:					
Lease revenues	$ 9,539	$ 9,240	$ 9,628	3.2%	(4.0%)
Average lease rates	9.40	9.70	9.95	(3.1%)	(2.5%)
Period end occupancy rate	82.8%	80.6%	81.3%	2.7%	(0.9%)
Operating cost recoveries	$ 7,794	$ 6,982	$ 6,960	11.6%	0.3%
Total rentable square feet [(1)]	1,141,732	1,141,391	1,138,214	0.0%	0.3%

Note:
(1) Rental area could change as a result of modifications made to properties in order to meet tenant requirements.

The 82.8% year end occupancy of 2006 represents an improvement from the 80.6% occupancy level as at December 31, 2005 and the 81.3% occupancy level as at December 31, 2004. Average occupancy for the year improved to 84.2% from 79.7% in 2005. IAT's improvement in occupancy during the year, and consequential recovery of operating costs has, in part, been the result of successfully competing against off-airport properties in securing tenants for leases with five year terms or longer.

(dollars in thousands, except percentage data)	For the Years Ended December 31, 2006	December 31, 2005	December 31, 2004[(1)]	% Change	% Change
Operating activity:					
Building improvements (recoverable)	$ 683	$ 284	$ 331	140.5%	(14.2%)
Tenant and building improvements (not recoverable)	357	31	$ 171	1,051.6%	(81.9%)
Total capital expenditures	1,040	315	502	230.2%	(37.3%)
Operating costs [(1)]	9,187	8,532	8,664	7.7%	(1.5%)
Operating cost recoveries	7,794	6,982	6,960	11.6%	0.3%
Operating cost recoveries as a percentage of cost	84.8%	81.8%	80.3%	3.7%	1.9%
Leasing and marketing fees	$ 341	$ 331	$ 344	3.0%	(3.8%)
General and administrative costs	718	644	728	11.5%	(11.5%)
Amortization, impairment charges and accretion	4,914	18,989	6,012	(74.1%)	215.9%
Recovery of income taxes	2,407	7,199	1,516	(66.6%)	374.9%

Note:
(1) Operating costs include land lease rents, property maintenance, utilities, property management fees, property taxes and facility related insurance costs.

IAT's strategic investment in tenant improvements and its focus on working with tenants to ensure that new and renewing tenants' space requirements are satisfactorily met are reflected in the improved occupancy levels and consequential operating cost recoveries of the year ended December 31, 2006, compared to the year 2005. Non-recoverable tenant and building improvements for the three month period ended December 31, 2006 were approximately $96,000, compared to $17,000 for the same period in 2005, and for the year ended December 31, 2006 were approximately $0.4 million, compared to $31,000 for the prior year. In 2006, IAT also increased its investment in improving and repairing or refurbishing its buildings to ensure their sustained competitiveness on a long-term basis. These building improvements are primarily focused on roofing, paving and exterior painting and are recoverable from the tenants pursuant to the terms of the tenant leases. Management invested a total

of approximately $1.0 million in building and tenant improvements in 2006 and anticipates investing a total of approximately $1.4 million for the year 2007.

Operating costs for the three month period ended December 31, 2006 were $2.5 million, compared to approximately $2.2 million for the same period in 2005. The increase reflects the higher recoverable utilities, real estate taxes, snow removal and building maintenance costs incurred by IAT in the quarter. The operating costs for the year 2006 amounted to a total of $9.2 million, compared to $8.5 million in the previous year. A large portion of these costs are variable costs arising from the higher occupancy levels and weather conditions in 2006. Operating cost recoveries for the three month period ended December 31, 2006 were 84.2%, compared to 83.3% for the same period in 2005. The operating cost recoveries for the year ended December 31, 2006 of 84.8% reflect the increased average occupancy for the year as compared to the 81.8% recovery achieved in the year 2005.

General and administrative expenses are both those of IAT and the Fund, and include director and trustee fees, reporting issuer maintenance costs, legal and accounting fees and allowance for doubtful accounts, net of recoveries of amounts previously written off. Approximately $0.3 million relating to reporting issuer maintenance and compliance costs have contributed to general and administrative expenses of $0.7 million for the year ended December 31, 2006 ($0.6 million for the year ended December 31, 2005), and $0.2 million for the three month period ended December 31, 2006 ($0.2 million for the three month period ended December 31, 2005).

Amortization, impairment charges and accretion decreased significantly for the quarter and year ended December 31, 2006 as compared to the corresponding periods in the prior year. Impairment charges of $12.8 million ($8.4 million net of future income tax benefit) were incurred in the fourth quarter of 2005. Amortization, impairment charges and accretion expenses for the quarter and year ended December 31, 2006 were $1.2 million and $4.9 million, respectively, as compared to $14.5 million and $19.0 million, respectively, for the corresponding periods in the prior year.

The Fund accounts for income taxes using the liability method, where future income taxes are recognized in respect of the expected future income tax consequences attributable to differences between the financial statement carrying values and their respective tax bases. Future income tax assets and liabilities are measured using income tax rates expected to apply when the asset is realized or the liability settled. The effect on future income taxes as a result of a change in tax rate is recognized in income in the period in which the change occurs. A tax rate change in the second quarter of 2006 resulted in a reduction of future tax liabilities of approximately $1.3 million. Recovery of income taxes for the quarter ended December 31, 2006 was $0.4 million compared to $5.9 million for the quarter ended December 31, 2005. The higher provision for recovery of future income taxes for the quarter ended December 31, 2005 was a result of the impairment charges incurred in that quarter as explained above and a change in tax rate recorded in the same quarter.

(dollars in thousands, except percentage, year and per unit data)	For the Years Ended December 31, 2006	December 31, 2005	December 31, 2004[(1)]	% Change	% Change
Financing activity:					
Mortgage loans outstanding at year end	$ 15,727	$ 16,352	$ 16,944	(3.8%)	(3.5%)
Mortgage loans/property net book value	24.3%	23.7%	19.3%	2.5%	22.8%
Average remaining mortgage term (years)	$ 3.00	$ 3.30	$ 4.30	(9.1%)	(23.3%)
Average interest rate at period end	7.1%	7.3%	7.3%	(2.7%)	0.0%
Interest on mortgages, less interest income	$ 880	$ 1,048	$ 1,117	(16.0%)	(6.2%)

Note:

(1) The financial statements for the year ended December 31, 2004 have been restated to reflect the consolidation of a joint venture company in which IAT has a 50% interest.

Two mortgages amounting to a total of $2.4 million, which expired in the fourth quarter of 2006, have been renewed with scheduled principal amortization and at variable interest rates which are 0.5% above the lender's prime rate. As at December 31, 2006, the effective average interest rate on these two mortgages was 6.50% as compared to 7.65% prior to renewal. IAT seeks to reduce its interest rate risk by staggering the maturities of its long term debt and maintaining a balance between fixed and variable interest rates. See "Liquidity and Capital Resources" for a summary of mortgage principal payments by period.

The remainder of IAT's mortgage loans are fixed rate mortgages with principal amortization. The decrease of interest on mortgages, less interest income, to $0.9 million for the year of 2006 from $1.0 million for the year of 2005 is primarily due to decreased interest expense related to lower outstanding principal balances of mortgages and the higher average balance of short-term investments of cash yielding higher rates of return.

Selected Financial Information [1]

(dollars in thousands, except per unit data)	For Years Ended December 31, 2006	2005	2004[2]
Rental revenues	$ 17,333	$ 16,222	$ 16,588
Operating costs and leasing and marketing fees	9,528	8,863	9,008
Net operating income (NOI)[3]	7,805	7,359	7,580
Adjusted EBITDA[4]	7,363	6,867	7,751
Funds from operations (FFO)[5]	6,065	5,467	6,348
Funds from operations per unit	0.87	0.82	0.96
Earnings (loss)	3,657	(6,164)	1,961
Earnings (loss) per unit	0.52	(0.92)	0.30
Capital expenditures:			
Building improvements [6]	683	284	331
Tenant and building improvements [7]	357	31	171
Principal paid on mortgages	625	592	548
Fund expenses	371	355	337
Distributions declared to unitholders	4,668	5,456	4,985
Distributions declared to unitholders (per trust unit)	0.67	0.82	0.76
Distributions paid to unitholders	4,459	5,671	4,615
Distributions paid to unitholders (per trust unit)	0.64	0.86	0.71
Assets	73,362	77,090	93,612
Mortgage loans	15,727	16,352	16,944
Asset retirement obligations	438	380	160

Notes:

(1) Financial data has been prepared in accordance with GAAP. The Fund reports its results on a consolidated basis.

(2) The financial statements for the year ended December 31, 2004 have been restated to reflect the consolidation of a joint venture company in which IAT has a 50% interest.

(3) NOI is not a recognized measure under GAAP. The Fund's method of calculating NOI may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See below for a reconciliation of NOI to earnings, a GAAP measure.

(4) Adjusted EBITDA is not a recognized measure under GAAP. The Fund's method of calculating Adjusted EBITDA may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See below for a reconciliation of Adjusted EBITDA to cash, a GAAP measure.

(5) FFO is not a recognized measure under GAAP. The Fund's method of calculating FFO may differ from other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. See below for a reconciliation of FFO to earnings, a GAAP measure.

(6) These are building improvements which are recoverable from tenants under the terms of the various tenant leases.

(7) Tenant improvements and certain building improvements are not recoverable from tenants.

Net Operating Income

Net operating income ("NOI") is defined as lease revenue, including operating cost recoveries, less operating costs and leasing and marketing fees, and excludes amortization, impairment charges and accretion, general and administrative expenses and interest expense. The Fund considers NOI to be an appropriate supplemental performance measure because NOI reflects the operating performance of the real estate portfolio. However, NOI should not be viewed as an alternative measure of financial performance since it does not reflect general and administrative expenses, interest expense, amortization, impairment charges and accretion costs and capital expenditures that could materially impact results from operations. Further, NOI may not be comparable to that of other real estate issuers, as they may use different methodologies for calculating NOI. The following table provides a reconciliation of NOI to earnings or loss of IAT for 2006, 2005 and 2004.

Reconciliation of NOI to Earnings (Loss)

(dollars in thousands)	For the Years Ended December 31, 2006	2005	2004 [(1)]
Net operating income	$ 7,805	$ 7,359	$ 7,580
General and administrative	(718)	(644)	(728)
Interest on mortgage loans, less interest income	(880)	(1,048)	(1,117)
Amortization, impairment charges and accretion	(4,914)	(18,989)	(6,012)
Other income	-	-	772
Recovery of income taxes	2,407	7,199	1,516
Minority interest's share of earnings	(43)	(41)	(50)
Earnings (Loss)	$ 3,657	$ (6,164)	$ 1,961

Note:

(1) The financial statements for the year ended December 31, 2004 have been restated to reflect the consolidation of a joint venture company in which IAT has a 50% interest.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest expense, income tax, amortization, impairment charges, accretion and minority interest's share of earnings ("Adjusted EBITDA"). Adjusted EBITDA is not a recognized measure under GAAP but is a useful supplemental indicator of cash earned in the operations of IAT and other consolidated entities. The Fund considers Adjusted EBITDA to provide investors relevant and useful information because it permits investors to view income from its operations on an unleveraged basis before the effects of non-cash amortization, impairment charges and accretion. By excluding interest expense and minority interest's share of earnings, Adjusted EBITDA allows investors to measure the Fund's operating performance independent of its capital structure and indebtedness and, therefore, allows for a more meaningful comparison of its operating performance between quarters as well as annual periods and for comparison of its operating performance to that of other issuers, both in the real estate industry and in other industries. The Fund considers Adjusted EBITDA to be a useful supplemental measure for reviewing its comparative performance with other issuers because, by excluding non-cash amortization, impairment charges and accretion expenses, Adjusted EBITDA can help investors compare the performance of a real estate issuer to that of issuers in other industries. As a liquidity measure, the Fund believes that Adjusted EBITDA helps investors to analyze its ability to meet debt service obligations. The Fund uses Adjusted EBITDA in the same manner as the Fund expects investors to when measuring the Fund's operating performance and liquidity; specifically when assessing its operating performance, and comparing that performance to other issuers, both in the real estate industry and in other industries, and when evaluating its ability to meet debt service obligations.

By excluding interest expense, income taxes, amortization, impairment charges, accretion and minority interest's share of earnings when assessing the Fund's financial performance, an investor is assessing the earnings generated by the Fund's operations, but not taking into account the eliminated expenses incurred in connection with such operations. As a result, Adjusted EBITDA has limitations as an analytical tool and should be used in conjunction with the Fund's required GAAP presentations. Adjusted EBITDA does not reflect the Fund's historical cash expenditures or future cash requirements for working capital, capital expenditures or contractual commitments. Adjusted EBITDA also does not reflect the cash required to make interest and principal payments on the Fund's outstanding debt or payments to the minority interest. While Adjusted EBITDA is a relevant and widely used measure of operating performance and liquidity, it does not represent earnings or cash flow from operations as defined by GAAP and it should not be considered as an alternative to those indicators in evaluating operating performance or liquidity. Further, the Fund's computation of Adjusted EBITDA may not be comparable to Adjusted EBITDA reported by other issuers and is not to be construed as an alternative to earnings determined in accordance with GAAP. The following table provides a reconciliation of Adjusted EBITDA to cash flow of IAT for 2006, 2005 and 2004.

Reconciliation of Adjusted EBITDA to Cash

	For the Years Ended December 31,		
	2006	**2005**	**2004** (1)
(dollars in thousands)			
Adjusted EBITDA	$ 7,363	$ 6,867	$ 7,751
Interest on mortgage loans, less interest income	(880)	(1,048)	(1,117)
Interest income	(276)	(152)	(127)
Operating provisions	-	-	153
Current taxes	(37)	(90)	(38)
Earnings before amortization, impairment charges and accretion	6,170	5,577	6,622
Change in non-cash working capital	(817)	113	(272)
Cash flow used in investing activities	(357)	(31)	(171)
Cash distributions paid to unitholders	(4,459)	(5,671)	(4,615)
Cash dividends paid to non-controlling shareholder	(60)	(60)	(70)
Proceeds from private placement, net of issue costs	-	2,818	-
Mortgage loan repayments	(625)	(592)	(548)
Net change in cash	(148)	2,154	946
Cash beginning of period	6,307	4,153	3,207
Cash end of period	$ 6,159	$ 6,307	$ 4,153

Note:

(1) The financial statements for the year ended December 31, 2004 have been restated to reflect the consolidation of a joint venture company in which IAT has a 50% interest.

Funds From Operations

Funds from operations ("FFO") is a supplemental non-GAAP financial measure of operating performance widely used by the real estate industry. Effective January 1, 2005, the Real Property Association of Canada ("REALPAC"), formerly the Canadian Institute of Public and Private Real Estate Companies, adopted the following revised definition of FFO: "Funds from operations means net income (computed in accordance with GAAP), excluding gains (or impairment provisions and losses) from sales of depreciable real estate and extraordinary items, plus depreciation and amortization, plus future income taxes and after adjustments for equity accounted for entities and non-controlling interests. Adjustments for equity accounted for entities and joint ventures and non-controlling interest are calculated to reflect funds from operations on the same basis as the consolidated properties."

We consider FFO a meaningful supplemental measure of operating performance as it primarily rejects the assumption that the value of real estate investments diminishes predictably over time and it adjusts for items included in GAAP earnings that may not necessarily be the best determinants of operating performance (such as gains or losses on the sale of, and provisions for impairment against, long-lived real estate investments.) IAT's method of calculating FFO is in accordance with REALPAC's recommendations but may differ from other issuers' methods and accordingly may not be comparable to FFO reported by other issuers.

FFO is not a recognized measure under GAAP. While FFO is a relevant and widely used measure of operating performance of real estate investment issuers and other real estate issuers, it does not represent cash flow from operations or net income as defined by GAAP and should not be considered as an alternative to those measures in evaluating the Fund's liquidity or operating performance. FFO also does not consider the costs associated with capital expenditures related to the Fund's real estate assets nor is FFO necessarily indicative of cash available to fund the Fund's future cash requirements. The following table provides a reconciliation of FFO to earnings or loss of IAT for 2006, 2005 and 2004.

Reconciliation of FFO to Earnings (Loss)

	For the Years Ended December 31,		
	2006	**2005**	**2004 [1]**
(dollars in thousands)			
Funds from operations	$ 6,065	$ 5,467	$ 6,348
Amortization, impairment charges and accretion	(4,914)	(18,989)	(6,012)
Recovery of future income taxes	2,444	7,289	1,554
Adjustments to derive FFO from consolidated JVs			
Minority interest's share of earnings	(43)	(41)	(50)
FFO attributable to minority interests	105	110	121
Earnings (loss)	$ 3,657	$ (6,164)	$ 1,961

Note:

(1) The financial statements for the year ended December 31, 2004 have been restated to reflect the consolidation of a joint venture company in which IAT has a 50% interest.

Consolidated Quarterly Financial Results

(dollars in thousands, except per unit data)	2006 Q1	Q2	Q3	Q4	Total
Lease revenue	$ 2,235	$ 2,445	$ 2,476	$ 2,383	$ 9,539
Operating cost recoveries	2,128	1,773	1,777	2,116	7,794
Total rental revenues	4,363	4,218	4,253	4,499	17,333
Operating costs	2,479	2,140	2,056	2,512	9,187
Non-recoverable selling, general and administrative expenses	250	368	180	261	1,059
Earnings before the following	1,634	1,710	2,017	1,726	7,087
Interest on mortgages, less interest income	240	204	225	211	880
Amortization, impairment charges and accretion	1,233	1,255	1,254	1,172	4,914
Earnings before income taxes and minority interest	161	251	538	343	1,293
Recovery of income taxes	296	1,566	171	374	2,407
Minority interest's share of earnings	(10)	(13)	(17)	(3)	(43)
Earnings	$ 447	$ 1,804	$ 692	$ 714	$ 3,657
Earnings per unit	$ 0.06	$ 0.26	$ 0.10	$ 0.10	$ 0.52
Distribution declared to unitholders	$ 1,045	$ 1,045	$ 1,045	$ 1,533	4,668
Distribution declared to unitholders per unit	$ 0.15	$ 0.15	$ 0.15	$ 0.22	$ 0.67
Weighted average of units outstanding	6,966,368	6,966,368	6,966,368	6,966,368	6,966,368

(dollars in thousands, except per unit data)	2005 Q1	Q2	Q3	Q4	Total
Lease revenue	$ 2,419	$ 2,286	$ 2,251	$ 2,284	$ 9,240
Operating cost recoveries	1,904	1,775	1,493	1,810	6,982
Total rental revenues	4,323	4,061	3,744	4,094	16,222
Operating costs	2,379	2,129	1,850	2,174	8,532
Non-recoverable selling, general and administrative expenses	248	280	213	234	975
Earnings before the following	1,696	1,652	1,681	1,686	6,715
Interest on mortgages, less interest income	265	266	274	243	1,048
Amortization, impairment charges and accretion	1,482	1,525	1,437	14,545	18,989
Loss before income taxes and minority interest	(51)	(139)	(30)	(13,102)	(13,322)
Recovery of income taxes	439	478	429	5,853	7,199
Minority interest's share of earnings	(5)	(5)	(25)	(6)	(41)
Earnings (loss)	$ 383	$ 334	$ 374	$ (7,255)	$ (6,164)
Earnings (loss) per unit	$ 0.06	$ 0.05	$ 0.06	$ (1.04)	$ (0.92)
Distribution declared to unitholders	$ 1,436	$ 1,445	$ 1,251	$ 1,324	5,456
Distribution declared to unitholders per unit	$ 0.22	$ 0.22	$ 0.19	$ 0.19	$ 0.82
Weighted average of units outstanding	6,606,368	6,606,368	6,633,759	6,966,368	6,704,012

Fourth Quarter Results

Lease revenue improved to $2.4 million in the fourth quarter of 2006 from $2.3 million in the corresponding quarter of 2005 primarily due to higher occupancy but partially off-set by lower rental rates. Lease revenue decreased in the fourth quarter of 2006 from the third quarter of 2006 due to a decrease in occupancy in the fourth quarter to 82.8% from 86.0% resulting from the expiration of two short-term leases. Operating costs increased to $2.5 million in the fourth quarter of 2006 from $2.2 million in the fourth quarter of 2005 and $2.1 million for the third quarter of 2006 primarily due to increased maintenance costs associated with higher occupancy as well as utility and snow removal costs due to adverse weather conditions in cities where IAT operates. Non-recoverable fees and selling, general and administrative fees increased slightly in the fourth quarter of 2006 to $0.3 million from the $0.2 million in the third quarter of 2006 and in line with general increases in compliance, reporting and professional fees.

Interest expense, less interest income, decreased in the fourth quarter of 2006 to $211,000 from $243,000 in the fourth quarter of 2005 and $225,000 in the third quarter of 2006 primarily due to decreased interest expense related to lower outstanding principal balances of mortgages and the higher average balance of short-term investments of cash, yielding higher rates of return. The provision for amortization, impairment charges and accretion in the fourth quarter of 2006 was $1.2 million as compared to $14.5 million in the corresponding quarter of 2005. The decrease was attributed to impairment charges on one property located in Saskatoon and two properties in Vancouver taken in the fourth quarter of 2005 aggregating $12.8 million ($8.4 million, net of future income tax benefit). The amortization and accretion provision in the fourth quarter of 2006 is similar to that in the previous quarter ended September 30, 2006. Income tax recovery in the fourth quarter of 2006 decreased to $0.4 million from $5.9 million in the fourth quarter of 2005, of which $4.4 million is attributable to the impairment charges and $1.1 million is attributable to a reduction of income tax rate recognized in the fourth quarter in the previous year. The increase in income tax recovery in the fourth quarter of 2006 to $0.4 million as compared to the previous quarter ended September 30, 2006 of $0.2 million is a result of revising the estimated tax rates used in the previous quarters to the expected effective tax rate for the year.

Liquidity and Capital Resources

As at December 31, 2006, after deducting the January 15, 2007 distribution payable to unitholders, IAT had cash on hand of $4.6 million as well as its unused line of credit of $0.8 million. Management of IAT expects to make a total investment of approximately $1.4 million to improve its properties for the year 2007. These investments include approximately $0.6 million in periodic maintenance and improvement works, such as roofing, paving and painting. Such costs are recoverable from tenants pursuant to the terms of the lease agreements. The Fund also anticipates investing $0.4 million in facility upgrades.

A further investment in tenant improvements amounting to $0.4 million is expected to be incurred in the course of leasing activities relating to vacant or renewing space in 2007. Tenant improvements relate primarily to the refurbishing of tenant areas upon lease expiry or to accommodate new tenants' requirements in vacant space. Tenant improvements are capitalized and included in net investment in income properties in the consolidated balance sheet and amortized over the life of the applicable lease. The level of tenant improvements undertaken is dictated by the level of leasing activities in the given period. Periods of higher leasing will result in greater tenant improvements. The amounts budgeted for 2007 are estimated based on current information. No assurance can be given that the estimated amounts may not differ depending on actual commitments made in 2007. In 2006 and

2005, IAT incurred $0.4 million and $31,000, respectively, of tenant improvements which were paid from IAT's cash flow from operations.

The Fund is totally dependent upon IAT and IAT's real estate operations for the cash used to pay its administrative expenses and the amounts ultimately distributed to the Unitholders. The Fund receives from IAT quarterly interest payments on the Notes and any dividends that IAT may declare from time to time. The Senior Subordinated Notes carry a fixed interest rate of 10% per annum. Interest on the Subordinated Notes is determined quarterly at an amount equal to the amount by which 92.5% of IAT's earnings before interest, amortization, impairment charges and accretion and after provision for current taxes payable exceeds debt service requirements (principal and interest) on mortgage debt and the Senior Subordinated Notes, subject to a minimum rate of 6% per annum and a maximum rate of 12.5% per annum.

Based on historical and anticipated cash needs, IAT retains a reserve for capital expenditures and working capital and other requirements. If IAT concludes that it has additional cash beyond what it needs for expected capital expenditures and working capital and other requirements, the directors of IAT may, in their discretion, declare a dividend to the Fund, which would then be available for distribution by the Fund to unitholders.

IAT's cash from operations is not seasonal but is cyclical as it pertains to the aviation industry. The majority of operating expenses (including land lease rents, property taxes, and insurance) are recovered from tenants as the cost is incurred throughout the year. IAT maintains an operating credit facility of $0.8 million to meet its working capital requirements. This line of credit is secured, has a variable interest rate equal to the bank's prevailing prime rate plus 1%, and is repayable on demand with interest paid monthly on the outstanding balance. To date, IAT has been able to meet all its working capital and other cash requirements from its own sources of cash.

IAT may on occasion require additional capital to fund acquisitions and renovations. Such acquisitions and renovations are expected to be primarily funded by mortgage financing, cash on hand and the issuance and sale of new Fund units. In addition, IAT may incur costs from time to time in connection with potential acquisitions or expansions and related financing proposals. Pending the completion or other termination of these proposed transactions, such costs may be deferred and subsequently may be capitalized as part of the acquisition costs, applied against financing proceeds or expensed, depending on the nature and outcome of the proposed transaction.

The following table sets forth the consolidated long term contractual obligations of IAT as at December 31, 2006 by maturity date:

	Payments Due by Year				
	Total	2007	2008 - 2010	2011 - 2012	After 2012
Mortgages [(1),(2)]	$ 15,727	$ 756	$ 9,404	$ 5,567	$ -
Operating leases [(3)]	34,795	2,665	6,189	4,016	21,925
Asset retirement obligations[(4)]	438	-	125	-	313
Total	$ 50,960	$ 3,421	$ 15,718	$ 9,583	$ 22,238

Notes:

(1) Further information regarding IAT's long term debt obligations is included in note 6 to the Fund's consolidated financial statements for the year ended December 31, 2006.

(2) Mortgages due in 2007 through 2011 are expected to be renewed at maturity for their outstanding principal amounts. Assuming such renewals, principal payments required in the first through fifth years are as follows: 2007-$0.8 million; 2008/2009-$1.7 million; 2010/2011-$1.8 million; thereafter-$11.4 million.

(3) Operating leases are leases of land at various airports. IAT has no other capital or operating leases or purchases or other long-term obligations other than accounts payable for goods and services in the ordinary course of business.

(4) Under the terms of various land leases, retirement costs might be incurred by IAT at the end of the final term of some of those land leases. A provision for these costs has been established in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110 – Asset Retirement Obligations.

Certain of IAT's mortgages require compliance with certain financial covenants including debt service coverage ratios. For the year ended December 31, 2006, IAT believes it complied with these covenants.

The interest rate on the Subordinated Notes of IAT held by the Fund is a variable rate based on IAT's earnings for the immediately preceding calendar quarter. The interest rate is determined quarterly at an amount equal to the amount by which 92.5% of IAT's earnings before interest, amortization, impairment charges and accretion and after provision for current taxes payable exceeds debt service requirements (principal and interest) on mortgage debt and the Senior Subordinated Notes, subject to a minimum rate of 6% per annum and a maximum rate of 12.5% per annum.

The $2.9 million Senior Subordinated Notes issued by IAT to the Fund in September 2005 carry a fixed interest rate of 10% per annum and are senior to the Subordinated Notes but are subordinate to IAT's current and future mortgage debt.

IAT invests its cash balances in short-term money market funds, yielding a higher interest rate than that available through its bank account. These investments mature every thirty days, and will be rolled over until use of this cash is necessary.

Related Party Transactions

IAT has agreements with AMB Canada whereby AMB Canada provides property management, leasing and marketing services to IAT, and IAT pays AMB Canada fees for such services. During the years ended December 31, 2006 and 2005, IAT was charged a total of $1.3 million and $1.2 million, respectively, under the agreements for property management fees, leasing, marketing fees and construction management. The property management fees are included in operating costs and are recoverable from tenants. In addition, the Fund has engaged AMB Canada to provide administrative services to the Fund. No additional fee is charged for these services. The Fund will reimburse AMB Canada for any incidental expenses incurred on its behalf. For the years ended December 31, 2006 and 2005, no expenses were reimbursed by the Fund as expenses have been paid by the Fund directly.

Gross rental income earned by IAT from AMB Canada during each of the years ended December 31, 2006 and 2005 was approximately $0.1 million.

During each of the years ended December 31, 2006 and 2005, the Fund and IAT incurred fees aggregating $0.2 million each year for legal advice and services to the law firm Lawson Lundell LLP, one of the partners of which is secretary of the Fund and of IAT. See Note 11 – Related Party Transactions in the notes to the Consolidated Financial Statements for further information.

On June 10, 1997, the Fund entered into an agreement with LMT Management Ltd. ("LMT"), which had the right to nominate three of IAT's five directors and to recommend the appointment of the executive officers of IAT. LMT was to provide strategic management and advice for a period of ten years ending in 2007 subject to certain early termination rights and obligations. LMT holds options to purchase common shares of IAT, which were amended in September 2005 and expire on June 10, 2007. The strategic management agreement with LMT was terminated in September 2005.

Critical Accounting Estimates

The preparation of consolidated financial statements for the Fund in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The following is a discussion of those critical accounting estimates where the actual results are considered by management to be most uncertain and where actual results could materially affect or alter the financial condition, changes in financial condition or results of operation of IAT.

Recoverable Costs

Provisions in the financial statements for recoverable operating costs are based on management's estimates of such items. Actual costs recovered may vary from the estimated amounts as a result of changes in tenants and occupancy levels, taxes, changes in suppliers' invoice rates, variations in leases and lease terms and other factors. Adjustments are made annually at the end of each year and generally do not result in significant adjustment in these provisions.

Future Income Taxes

The Fund follows the recommendations of the CICA relating to income taxes. These require a provision for future income taxes that represents the estimate of the future tax liability attributable to the difference between financial statement carrying values and the cost basis for tax purposes of various assets and liabilities. Changes in income tax rates and estimates of liability are recognized in the period when a change occurs.

Such changes in income tax rates and estimates can have a significant effect on the provision for future income taxes in IAT. Future income tax provisions have no effect on IAT's distributable cash or Adjusted EBITDA or on payments by IAT to the Fund.

Carrying Value of Assets

Management of IAT reviews the carrying value of real estate investments and intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition based on management's best estimates. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If impairment analysis assumptions change, then an adjustment to the carrying value of IAT's long-lived assets could occur in the future period in which the assumptions change. To the extent that a property is considered impaired, the excess of the carrying amount of the property on the balance sheet over the estimated fair value is charged to earnings. The Fund evaluated its properties and its intangible asset for impairment as of December 31, 2006 and determined that there are no indications of impairment in any of the properties.

Management estimates anticipated future cash flow from its properties based on assumed lease rates and occupancy levels over the remaining life of its land leases, based on the exercise of options to renew, or rights of refusal in, such leases. Recovery of IAT's investment in its facilities through lease revenues will depend on actual occupancy and lease rates in the future. Management will continue to review such values and may determine that adjustment is required in the future if changes in business conditions result in changes to expectations for occupancy and lease rates.

Asset Retirement Obligations

The Fund recognizes a liability for asset retirement obligations in the period in which an obligation is incurred if a reasonable estimate of the retirement cost can be made. The estimated future obligation is capitalized as part of the carrying value of the income properties, and amortized over the remaining life of the property. The obligation is adjusted annually by accretion. There is a high degree of uncertainty in the determination of the amount of the retirement obligations, which are based on management's best estimates at the time. These estimates are reviewed annually, and where appropriate, the impact of changes to these estimates is recorded in the financial statements. The decommissioning costs associated with asset retirement will depend upon market conditions in the construction, recycling, and environmental sectors, and will vary over time. The likelihood of having to decommission a building varies depending on local airport authority long term usage plans, occupancy levels and anticipated market demand at the end of the term of land leases. The estimate will also depend on the remaining term of each land lease, the anticipated condition of each building on the decommissioning date, as well as assumed inflation and discount rates. In 2006, the provision for asset retirement obligations increased by $0.5 million compared to 2005 mainly due to the expected escalation in decommissioning costs in Vancouver.

Changes in Accounting Policy and Restatement

The Fund adopted the recommendations of CICA Accounting Guideline 15 regarding Variable Interest Entities in 2004, and consolidated the Fund's financial statements with those of IAT's, a variable interest entity ("VIE"). As a result of the amendment of the corporate governance agreements between the Fund, IAT and LMT Management Ltd., IAT was no longer a variable interest entity at December 31, 2005, but continues to be reported in the consolidated results of the Fund since it is wholly owned and controlled by the Fund.

During 2005, the Fund reviewed the accounting treatment of its 50% joint venture in 3051350 Nova Scotia Company Ltd. (the "Joint Venture") and determined that the Joint Venture is a VIE and that the Fund is the primary beneficiary due to a combination of a put option between the parties to the Joint Venture and various agreements between the Joint Venture, IAT and AMB Canada. As a result, the Fund restated its 2004 consolidated financial statements, on a retroactive basis, to reflect the consolidation of the Joint Venture. Prior to 2005, the Fund accounted for the Joint Venture using the proportionate consolidation method.

These accounting policies have been consistently applied for both years 2006 and 2005.

Disclosure Controls and Procedures

Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings defines "Disclosure controls and procedures" as follows:

> *"Disclosure controls and procedures" means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure.*

Management personnel of IAT, including the President and Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the design and operation of IAT's and the Fund's disclosure controls and procedures as of December 31, 2006 and has concluded that such disclosure controls and procedures provide reasonable assurance that information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

Internal Control Over Financial Reporting

Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings defines "internal control over financial reporting" as follows:

> *"internal control over financial reporting" means a process designed by, or under the supervision of, the issuer's chief executive officers and chief financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:*
>
> *(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer,*
>
> *(b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer, and*
>
> *(c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.*

During the year ended December 31, 2006, no change has been made to the Fund's or IAT's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's or IAT's internal control over financial reporting.

Outlook and Risks

Global air cargo volumes continue to improve, and, in time, are expected to meet and exceed the peak volumes of 1999, as the effects of changes in worldwide trade, such as the distribution and logistics requirements of global companies, continue to impact the global economy and supply chain. A 2007 report from the Airports Council International ("ACI") concluded that global air cargo volumes will triple over the next 20 years from 2005 levels. While air cargo volumes for North America are projected to grow less or at a slower pace in comparison to other regions, we anticipate that, in the long-term, based on growth forecasts from ACI, Boeing and numerous other industry consultants, as well as AMB Canada's own experience and analysis, an increase in global air cargo volumes is expected to create additional demand for IAT's facilities in Canada. In particular, we anticipate that, in the long-term, AMB Canada's extensive experience in the air cargo industry, our access to AMB's global customer base, and the continued execution of IAT's strategy to be a world-class operator of air cargo facilities will aid us in attracting and retaining tenants for IAT's facilities.

The trend towards industry consolidation within IAT's traditional tenant base continues, which could result in reductions in demand for space due to the inherent operational efficiency gained by having fewer, larger customers in the marketplace. However, if overall global cargo volumes continue to grow as expected, such growth may offset this possible reduction in demand due to industry consolidation among IAT's customers.

Authorities at airports where IAT sublets air cargo facilities may work directly with prospective customers of IAT, and develop and lease air cargo facilities in direct competition to IAT. Other developers of such space also compete with IAT either at or near such airports. However, IAT expects to be able to effectively compete because of its extensive relationships with existing customers and its access to AMB's expertise, global platform and customer relationships.

The Fund is also subject to those risk factors discussed under the heading "Risk Factors" in the Fund's Annual Information Form, which is available on SEDAR at www.sedar.com.

Additional Information

A Supplemental Information Package with additional financial information is available on SEDAR at www.sedar.com and should be read in conjunction with this Annual Report.

March 9, 2007

International Aviation Terminals Inc.
per:

Michael A. Coke
President and Chief Executive Officer

FINANCIAL STATEMENTS
RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and other information pertaining to the Fund in this annual report are the responsibility of the Trustees of the Fund. The financial statements of the Fund have been prepared on a consolidated basis with the financial results of IAT in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include financial information of IAT that is the responsibility of IAT's Board of Directors and that reflects estimates and judgments of the executive management of IAT.

IAT's executive management is also responsible for maintaining systems of internal and administrative controls to provide reasonable assurance that the Fund's assets are safeguarded, that transactions are properly executed in accordance with appropriate authorization and that the accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of IAT is responsible for assuring that IAT's executive management fulfills its responsibility for financial reporting and internal control.

The financial statements have been audited on behalf of the unitholders by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with generally accepted accounting standards. The Auditors' Report outlines the scope of their examination and their independent professional opinion on the fairness of these financial statements.

March 9, 2007

Robert J. Mair, Q.C.
Chairman
IAT Air Cargo Facilities Income Fund

AUDITORS' REPORT

To the Unitholders of
IAT Air Cargo Facilities Income Fund

We have audited the consolidated balance sheets of **IAT Air Cargo Facilities Income Fund** as at December 31, 2006 and 2005 and the consolidated statements of operations and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 9, 2007

IAT Air Cargo Facilities Income Fund

Consolidated Balance Sheets

As at December 31, 2006 and 2005

(dollars in thousands)	2006	2005
Assets		
Net investments in income properties (note 3)	$ 64,763	$ 69,127
Intangible asset (note 4)	487	622
Recoverable costs	1,098	687
Prepaid expenses and deposits	323	268
Accounts receivable (note 5)	532	79
Cash and cash equivalents	6,159	6,307
Total assets	$ 73,362	$ 77,090
Liabilities and Unitholders' Equity		
Mortgage loans (note 6)	$ 15,727	$ 16,352
Accounts payable and accrued liabilities	1,138	996
Distribution payable to unitholders (note 10)	1,533	1,324
Tenant deposits	1,591	1,499
Deferred revenue	194	326
Asset retirement obligations (note 7)	438	380
Future income taxes (note 8)	11,803	14,247
Total liabilities	32,424	35,124
Minority interest	(102)	(85)
Unitholders' equity (note 9):		
Capital contributions	67,360	67,360
Cumulative earnings	27,988	24,331
Cumulative distributions (note 10)	(54,308)	(49,640)
Total unitholders' equity	41,040	42,051
Total liabilities and unitholders' equity	$ 73,362	$ 77,090

Commitments (note 12)

Approved by the Fund Trustees

Trustee
Robert J. Mair

Trustee
W. John Dawson

The accompanying notes are an integral part of these consolidated financial statements

IAT Air Cargo Facilities Income Fund

Consolidated Statements of Operations and Cumulative Earnings

For the Years Ended December 31, 2006 and 2005

(dollars in thousands, except per unit amounts)		2006		2005
Rental Revenues				
Lease revenues	$	9,539	$	9,240
Operating costs recoveries		7,794		6,982
Total rental revenues		17,333		16,222
Expenses				
Operating costs		9,187		8,532
Leasing and marketing fees		341		331
General and administrative		718		644
Total operating expenses		10,246		9,507
Earnings before the following		7,087		6,715
Interest on mortgage loans, less interest income (note 6)		880		1,048
Amortization, impairment charges and accretion (notes 3, 4 and 7)		4,914		18,989
Earnings (loss) before income taxes		1,293		(13,322)
Recovery of (provision for) income taxes (note 8)				
Current		(37)		(90)
Future		2,444		7,289
Total recovery of income taxes		2,407		7,199
Earnings (loss) before minority interest		3,700		(6,123)
Minority interest's share of earnings		(43)		(41)
Earnings (loss) for the year		3,657		(6,164)
Cumulative earnings - beginning of year		24,331		30,495
Cumulative earnings - end of year	$	27,988	$	24,331
Basic and diluted earnings (loss) per trust unit	$	0.52	$	(0.92)
Weighted average number of trust units outstanding		6,966,368		6,704,012

The accompanying notes are an integral part of these consolidated financial statements

IAT Air Cargo Facilities Income Fund

Consolidated Statements of Unitholders' Equity

For the Years Ended December 31, 2006 and 2005

(dollars in thousands, except units)	Number of Units Outstanding	Capital Contributions	Cumulative Earnings	Cumulative Distributions	Total
Balance at December 31, 2004	6,606,368	$ 64,542	$ 30,495	$ (44,184)	$ 50,853
Private placement	360,000	2,956	-	-	2,956
Issue costs	-	(138)	-	-	(138)
Net loss	-	-	(6,164)	-	(6,164)
Distributions	-	-	-	(5,456)	(5,456)
Balance at December 31, 2005	6,966,368	$ 67,360	$ 24,331	$ (49,640)	$ 42,051
Net income	-	-	3,657	-	3,657
Distributions	-	-	-	(4,668)	(4,668)
Balance at December 31, 2006	6,966,368	$ 67,360	$ 27,988	$ (54,308)	$ 41,040

The accompanying notes are an integral part of these consolidated financial statements

IAT Air Cargo Facilities Income Fund

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

(dollars in thousands)	2006	2005
Cash flows from operating activities		
Earnings (loss) for the year	$ 3,657	$ (6,164)
Items not affecting cash		
Amortization, impairment charges and accretion	4,914	18,989
Future income taxes	(2,444)	(7,289)
Minority interest's share of earnings	43	41
	6,170	5,577
Change in non-cash operating items	(817)	113
Net cash provided by operating activities	5,353	5,690
Cash flows from investing activities		
Additions to income properties	(357)	(31)
Net cash used in investing activities	(357)	(31)
Cash flows from financing activities		
Distributions paid to unitholders	(4,459)	(5,671)
Dividend paid to non-controlling shareholder of joint venture (note 1)	(60)	(60)
Proceeds from private placement, net of issue costs	-	2,818
Mortgage loan repayments	(625)	(592)
Net cash used in financing activities	(5,144)	(3,505)
Net change in cash and cash equivalents	(148)	2,154
Cash and cash equivalents - beginning of year	6,307	4,153
Cash and cash equivalents - end of year	$ 6,159	$ 6,307
Supplemental information:		
Interest paid on mortgage loans	$ 1,139	$ 1,202
Income taxes paid	$ 45	$ 90
Income properties and intangible assets:		
Non-cash increase to income properties from asset retirement obligations	$ 29	$ 195

1. Organization and description of the business

IAT Air Cargo Facilities Income Fund (the "Fund") is an unincorporated limited purpose trust created pursuant to a declaration of trust made as of March 15, 1997 (the "Declaration of Trust") and governed by the laws of the Province of British Columbia. The Fund owns the common shares and subordinated notes of International Aviation Terminals Inc. ("IAT"). IAT is in the business of owning and leasing buildings at key Canadian airports that are designed for use by businesses involved in air transport services including air cargo, aircraft maintenance and ground handling. IAT's properties are constructed on land leased at airports in Vancouver, Calgary, Edmonton, Saskatoon and Winnipeg under long-term ground leases from airport authorities acting on behalf of the Government of Canada in these cities. It leases 1,141,732 square feet of facilities developed on these lands to 132 tenants.

IAT has a 50% joint venture interest in 3051350 Nova Scotia Company Ltd. (the "Joint Venture") and has determined that the Joint Venture is a variable interest entity of which the Fund is the primary beneficiary due to a combination of various agreements between the Joint Venture, IAT, and AMB Property Canada Ltd., as well as a put option, whereby the other party to the Joint Venture has an annual right to put its 50% interest in the Joint Venture to IAT at a price determined based on the terms of the Joint Venture agreement.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Fund, IAT, 609704 B.C. Ltd., and 3051350 Nova Scotia Company Ltd. All significant inter-entity transactions and balances have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the reported amount of expenses during the period. Actual results could differ from these estimates. The most significant estimates are related to asset retirement obligations, asset impairment and the economic life of depreciable long-lived assets.

Net investment in income properties

Investments in income properties are recorded at cost, which includes capitalized interest during the construction period, less accumulated amortization.

Amortization of income properties is computed using the following methods and rates:

Buildings ....straight-line over terms of land leases
Tenant improvements.....................................straight-line over terms of tenant leases
Fencing, signs, paving, landscaping and other...... ...declining balance - 8% to 20%

No amortization is recorded on construction-in-progress until the facility is available for use.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization of intangible assets is computed over the term of the contractual arrangement as follows:

Land leases ....straight-line over terms of land leases
Non-compete agreement...............................straight-line over 10 years

When a building is purchased and there is value attributable in the transaction to the underlying land lease, the value is assigned to an intangible asset, land lease, and is included in net investments in income properties on the consolidated balance sheets for presentation purposes.

Impairment of income properties

The Fund reviews the carrying value of income properties, including land leases, for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and any eventual disposition based on management's best estimate. In cases where undiscounted estimated future cash flows are less than the carrying value, a write down is recognized equal to the difference between the carrying value and the estimated fair value. The estimated fair value is based upon discounted estimated future cash flows at sustainable occupancy levels, over the remaining lease term of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If impairment analysis assumptions change, then an adjustment to the carrying value of income properties could occur in the future period in which the assumptions change. To the extent that a property, including land leases, is impaired, the excess of the carrying amount of the property and land leases over their estimated fair value is charged to earnings. (See note 3.)

Recoverable costs

In its leases with tenants, IAT makes provision to recover, in addition to the rent paid, a proportionate share of its operating and maintenance costs, including rent paid on its land leases. Such costs and their recovery are recorded as incurred. Certain maintenance costs are deferred and recovered over a period ranging from three to ten years.

Cash and cash equivalents

Cash and cash equivalents include cash held by financial institutions and other highly liquid short-term investments with original maturities of three months or less.

Deferred revenue

Tenant rentals are normally billed in advance. Amounts received in advance are deferred and recognized as revenue in the period to which they relate.

Income taxes

The Fund accounts for income taxes using the liability method. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases.

Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs.

Revenue recognition

IAT, as a lessor, retains substantially all of the benefits and risks of ownership of the properties and accounts for its leases as operating leases. Tenant leases may include free rent periods and changes in monthly rents over the term of a lease. Total cash rents due over the term of a lease are recognized as revenue over that term on a straight-line basis. The difference between the revenue recognized and cash rents received in the relevant period is included in accounts receivable. Cost recoveries from tenants for land rent, real estate taxes and other recoverable operating expenses are recognized in the period the applicable expenses are incurred.

Asset retirement obligations

The Fund recognizes a liability for asset retirement obligations in the period in which an obligation is incurred if a reasonable estimate of the retirement cost can be made. The associated retirement costs are capitalized as part of the carrying value of income properties and amortized over the terms of the land leases. The obligation is increased annually by accretion that is charged to the consolidated statements of operations and reduced to reflect retirement costs incurred during the year.

Allowance for doubtful accounts

Accounts receivable are reviewed on a regular basis and a determination of the probability of collection is made based on the overall creditworthiness of tenants in arrears. From this, an allowance for doubtful accounts is established reflecting estimated losses resulting from the inability of certain tenants to meet the contracted obligations of their lease agreements, and allowances are netted against accounts receivable on the accompanying consolidated balance sheets.

Future Changes in Accounting Policy

The CICA has issued new accounting requirements for comprehensive income, and for financial instruments – recognition and measurement and hedges. The new requirements will be adopted effective as of January 1, 2007, and with respect to fiscal year 2007. The impact on the financial statements, with respect to the adoption of the new requirements effective January 1, 2007, is not expected to be significant.

3. Net investments in income properties

(dollars in thousands)	As at December 31, 2006 Cost	Accumulated amortization and impairment charges	Net
Intangible assets			
Land leases	$ 71,975	$ 35,175	$ 36,800
Income properties			
Buildings	44,612	17,997	26,615
Tenant improvements	1,574	605	969
Fencing, signs, paving, landscaping and other	742	363	379
	46,928	18,965	27,963
	$ 118,903	$ 54,140	$ 64,763

(dollars in thousands)	As at December 31, 2005 Cost	Accumulated amortization and impairment charges	Net
Intangible assets			
Land leases	$ 71,975	$ 32,479	$ 39,496
Income properties			
Buildings	44,583	16,192	28,391
Tenant improvements	1,712	874	838
Fencing, signs, paving, landscaping and other	715	330	385
Construction-in-progress	17	-	17
	47,027	17,396	29,631
	$ 119,002	$ 49,875	$ 69,127

Total amortization, impairment charges and accretion expenses amounted to $4.9 million for the year (2005 - $19.0 million), of which $4.7 million (2005 - $6.0 million) relates to land leases and buildings, $0.1 million relates to amortization of intangible assets (2005 - $0.1 million) and $116,000 relates to amortization and accretion of asset retirement obligations (2005 - $34,000). See notes 4 and 7.

The Fund reviews the carrying value of real estate investments for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. In 2005, the Fund reduced the carrying value of certain assets by $12.8 million. The effect on earnings for year ended December 31, 2005, net of future tax consequences, was $8.4 million. The impairment charge is presented as part of amortization, impairment charges and accretion on the consolidated statements of operations and the related tax impact is reflected in a reduction of future income taxes.

4. Intangible asset

(dollars in thousands)	As at December 31, 2006 Cost	Accumulated amortization	Net	As at December 31, 2005 Net
Non-compete agreement.....	$ 1,350	$ 863	$ 487	$ 622

Amortization of the non-compete agreement relating to the June 2000 acquisition of the Airside property amounted to $0.1 million for each of the years ended December 31, 2006 and 2005.

5. Accounts receivable

Accounts receivable include rent receivable determined on a straight-line basis of $0.1 million as at December 31, 2006 ($18,000 as at December 31, 2005) and an allowance for doubtful accounts of $0.1 million as at December 31, 2006 (nil as at December 31, 2005).

6. Mortgage loans

The mortgage loans are payable in monthly instalments, at either fixed interest rates or floating rates based on the prevailing lender's prime rate plus 0.5%. Contracted interest rates as at December 31, 2006 ranged from 6.5% to 7.8% (6.63% to 7.8% as at December 31, 2005). Buildings to which the mortgages relate, or other property and equipment, and an assignment of leases and rents, have been pledged as collateral. As at December 31, 2006, the net book value of those assets pledged as security is $33.5 million. Additionally, IAT has provided a guarantee to a limit of $1.9 million, representing its 50% share of the mortgage debt of the Joint Venture. The mortgage loans have initial terms of five to ten years and are normally renewed upon maturity. Certain mortgage loans require IAT to maintain covenants and service coverage ratios, which are reviewed by management on a quarterly basis to ensure compliance.

The principal payments required in the next five years and thereafter on the mortgage loans are as follows:

Year ending December 31 (dollars in thousands)		
2007	$	756
2008		6,495
2009		2,459
2010		450
2011		4,548
2012		1,019
	$	15,727

Interest

Interest on mortgage loans, less interest income is as follows:

(dollars in thousands)		2006		2005
Mortgage loans	$	1,156	$	1,200
Interest income		(276)		(152)
	$	880	$	1,048

IAT also has an unused line of credit of $0.8 million as at December 31, 2006 and December 31, 2005. This line of credit has a variable interest rate of the lender's prevailing prime rate plus 1%, is due on demand and interest is due monthly on the outstanding balance. Collateral is provided by a General Security Agreement granting the lender a first charge over all the assets and undertakings of IAT.

7. Asset retirement obligations

IAT's land leases may require the decommissioning of the attached building at the end of the land lease term, and as a result, a provision for this asset retirement obligation has been established, considering the cost of decommissioning, discount rate and the likelihood of being required to demolish buildings at the end of the land lease term. IAT estimates that the undiscounted amount of cash flow required to settle the asset retirement obligations is approximately $0.9 million as at December 31, 2006 (2005 - $0.8 million) and may be incurred between 2008 and 2029. A discount rate of 7.2% was used to calculate the fair value of the asset retirement obligations.

(dollars in thousands)		2006		2005
Obligations - beginning of year	$	380	$	160
Obligations recognized during the year		29		195
Accretion expense		29		25
Obligations - end of year	$	438	$	380

The effect on the consolidated statements of operations is as follows:

(dollars in thousands)		2006		2005
Statements of operations				
Amortization	$	87	$	9
Accretion expense		29		25

8. Income taxes

The Fund is a "Mutual Fund Trust" for purposes of the Income Tax Act and is only subject to statutory income taxes on taxable income not distributed to the unitholders. Any income tax obligations relating to the distributions are the obligations of the unitholders.

The Fund's corporate subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply when the assets are realized or the liabilities settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change occurs. Current year to date impact of such tax rate changes is a $1.3 million future tax benefit.

Significant components of the Fund's corporate subsidiaries' future tax assets and liabilities as at December 31, 2006 and 2005 are as follows:

(dollars in thousands)	As at December 31, 2006	As at December 31, 2005
Future tax assets		
Non-capital loss carry-forwards	$ 549	$ 1,083
Other reserves	200	208
Total future tax assets	749	1,291
Future tax liabilities		
Book value of income property assets in excess of tax value	12,552	15,538
Net future tax liability	$ 11,803	$ 14,247

The reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax expense is as follows:

(dollars in thousands)	For the Year Ended December 31, 2006	2005
Recovery of (provision for) income taxes at statutory rate	$ (429)	$ 4,569
Income tax benefit of Fund distributions deductible for tax purposes	1,586	1,752
Tax rate changes	1,318	1,101
Other taxes	(68)	(223)
Recovery of income taxes	$ 2,407	$ 7,199

IAT's non-capital loss carry-forwards expire as follows:

(dollars in thousands)	
2007	$ 863
2008	86
2009	202
2010	769

9. Unitholders' equity

The Declaration of Trust provides that an unlimited number of trust units may be created and issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in its net assets in the event of termination or windup of the Fund. All units are of the same class with equal rights and privileges. Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of $75,000 in cash redemption by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund.

On September 23, 2005, the Fund issued 360,000 units for $8.21 per unit to Headlands Realty Corporation, a wholly owned subsidiary of AMB Property, L.P. ("AMB"), an affiliate of AMB Property Canada Ltd., the administrator of the Fund. As at December 31, 2006, and December 31,

2005, Headlands holds approximately 5.2% of the issued and outstanding units of the Fund. See Note 11, Related Party Transactions, for more detail. 6,966,368 units were outstanding as at December 31, 2006, unchanged from December 31, 2005.

Options

LMT Management Ltd. ("LMT") has been granted options to purchase from IAT up to 2,274,928 authorized but unissued common shares of IAT as follows:

	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding - beginning and end of year........	2,274,928	$ 1.42	2,274,928	$ 1.42
Options exercisable at year-end..................	2,172,287	$ 1.41	2,069,646	$ 1.40

Options to purchase 513,206 common shares issued during 2002 become exercisable as to 20% annually, on a cumulative basis, commencing January 1, 2003. The exercise price of these options has been set at the time of grant, as the quotient of the sum of the dividends paid on one common share in the preceding four quarters divided by the market yield of the Fund units. All of the options expire on June 10, 2007. In September 2005, the Corporate Governance Agreement between the Fund and LMT was amended so that LMT has no further entitlement to further options to acquire common shares of IAT each time IAT issues additional shares to the Fund. To date, no common shares have been purchased under the options.

Under certain conditions, the Fund has a call right to acquire from LMT, and LMT has a put right to sell to the Fund, in exchange for units of the Fund, the common shares acquired by LMT upon exercise of the options. The number of trust units to be exchanged for each common share is to be determined based upon the ratio of distributions paid per IAT share to distributions paid per Fund unit over the previous 12 months. As at December 31, 2006, the options are considered to have no dilutive effect on the earnings and/or loss per unit of the Fund.

10. Distribution to unitholders

During the year ended December 31, 2006, the Fund declared distributions to unitholders of $4.7 million (2005 - $5.5 million). The amounts and record dates of the distributions were as follows:

(dollars in thousands, except per unit information)	2006 Total	2006 Per unit	2005 Total	2005 Per unit
March 31	$ 1,045	$ 0.15	$ 1,436	$ 0.22
June 30	1,045	0.15	1,445	0.22
September 30	1,045	0.15	1,251	0.19
December 31	1,533	0.22	1,324	0.19
	$ 4,668	$ 0.67	$ 5,456	$ 0.82

The distribution of $1.5 million ($0.22 per unit) payable to unitholders of record on December 31, 2006 was paid on January 15, 2007.

11. Related party transactions

IAT has agreements with AMB Canada (formerly IAT Management Inc.), a wholly-owned indirect subsidiary of AMB, whereby AMB Canada provides property management, development, leasing and marketing services to IAT, and IAT pays AMB Canada for such services. During the year ended December 31, 2006, IAT was charged a total of $1.3 million (2005 - $1.2 million) under the agreements. These fees are included in operating costs and leasing and marketing fees as applicable. The property management fees are included in operating costs and are recoverable from tenants. The amount due to AMB Canada as at December 31, 2006 was $0.1 million (2005 - $Nil). The agreements were amended in September 2005 to have an initial ten-year term, expiring on September 14, 2015, with an automatic renewal for a second ten years. Previously, IAT's rights included the right to terminate the agreements at any time on 90 days' notice, subject to a termination fee based on a 2.25 multiple of the basic management fees payable for the most recently completed four quarters. Under the amended and restated agreements, during the first ten-year term, IAT may exercise a no fault termination right in the event of a transaction that results in a change of control of IAT or, with respect to particular properties, a change of beneficial ownership of IAT's properties. During the second ten year term, IAT will have the right to terminate at any time with 90 days' notice. A termination fee would be payable by IAT if such a termination results in the remaining properties generating an annual management fee of less than $0.8 million. Any such termination fee would be based on a 2.25 multiple of the basic management fees payable for he most recently completed four fiscal quarters.

In addition, the Fund has engaged AMB Canada to provide administrative services to the Fund. The Fund will reimburse AMB Canada for any incidental expenses incurred on its behalf. During the years ended December 31, 2006 and 2005, no expenses were reimbursed by the Fund as expenses have been paid by the Fund directly.

Gross rental income is earned from AMB Canada for space leased from IAT at one of its Vancouver buildings. During the year ended December 31, 2006, the rental amount received by IAT from AMB Canada was $0.1 million (2005 - $0.1 million).

For the year 2006, Headlands Realty Corporation, a wholly owned subsidiary of AMB, received its pro-rated share of distribution from the Fund amounting to $0.2 million (2005 - $74,000).

During each of the years ended December 31, 2006 and 2005, the Fund and IAT paid an aggregate of $0.2 million for legal advice and services to the law firm of Lawson Lundell LLP, one of the partners of which is Secretary of the Fund and of IAT.

During the years ended December 31, 2006 and 2005, the Fund and IAT paid an aggregate amount of $nil and $0.1 million, respectively, for financial advice to BMO Nesbitt Burns, a company whose vice-chair was a Trustee of the Fund until January 31, 2006.

On June 10, 1997, the Fund entered into an agreement with LMT to provide strategic management and advice for a period of ten years ending in 2007 subject to certain early termination rights and obligations. LMT holds an option to purchase common shares of IAT (see note 9). The Strategic Management Agreement with LMT was terminated in September 2005.

12. Commitments

Operating land leases

IAT leases land from the Government of Canada and local airport authorities at airports in Western Canada. These leases are for varied terms, in certain cases with rights of renewal and rights of first refusal, extending for periods expiring between March 31, 2008 and September 30, 2029. Lease amounts are subject to escalation normally every five years.

Future minimum operating lease payments, using current established rates, are as follows:

(dollars in thousands)		
2007	$	2,665
2008		2,173
2009		2,008
2010		2,008
2011		2,008
2012		2,008
Thereafter		21,925
Total	$	34,795

IAT's current land lease profile as at December 31, 2006 is as follows:

(Dollars in thousands)	Area of leased land (sq ft)		2007 land lease commitment	Airport authority leases	Lease expiry
Vancouver	2,133,902	$	2,005	11	2008-2029
Edmonton	395,796		156	2	2019-2023
Calgary	704,443		336	2	2017-2029
Saskatoon	205,377		45	1	2021
Winnipeg	334,398		123	1	2022
	3,773,916	$	2,665	17	

Put option on Joint Venture

The other party to the Joint Venture has an annual right to put its 50% interest in the Joint Venture to IAT at a price to be determined based on future cash flows pursuant to the terms of the Joint Venture agreement.

13. Financial instruments and risk management

Fair value of financial instruments

As of December 31, 2006, the fair value of the Fund's mortgage loans is approximately $16.0 million (2005 - $17.2 million) and that of recoverable operating costs is approximately $1.2 million (2005 - $0.7 million). IAT's short-term financial instruments, comprising accounts receivable, cash and cash equivalents, accounts payable and accrued liabilities, and distribution payable to unitholders, are carried at cost which, due to their short-term nature, approximates their fair value.

Risk management

(a) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Fund mitigates this risk by assessing tenant quality and credit risk on new lessees, collecting security deposits upon lease execution and by limiting exposure to any one tenant.

As of December 31, 2006, IAT has 132 tenants and 70% of the Fund's revenue is derived from its operations at Vancouver International Airport, where 65% of its total net leaseable area resides. Currently, no one tenant occupies more than 6% of IAT's aggregate net leaseable area at all airports, nor contributes more than 8% towards total revenue.

(b) Interest rate risk

The Fund is exposed to interest rate risk on its borrowings. The Fund seeks to reduce its interest rate risk by staggering the maturities of its loans and by limiting the use of floating rate debt. IAT has mortgages amounting to $2.4 million (2005 – $Nil), representing approximately 15.2% of the total mortgages outstanding at December 31, 2006, on floating rate.

14. Segmented information

Management has determined that during the years ended December 31, 2006 and 2005, IAT operated within one business segment, which is the leasing of air cargo and related facilities in Canada.

15. Comparative figures

The comparative figures have been reclassified to conform to the current year presentation.

FUND INFORMATION

Trustees
W. John Dawson
Independent Business Advisor
Vancouver, British Columbia

Robert J. Mair, Q.C.
Independent Advisor
Vancouver, British Columbia

Alvin G. Poettcker
President and Chief Executive Officer
UBC Properties Trust
Vancouver, British Columbia

Secretary
Anthony W. Ryan
Partner
Lawson Lundell LLP
Vancouver, British Columbia

Principal Office
2000 - 5000 Miller Road
Richmond, BC V7B 1K6
Tel: (604) 249-5100
Fax: (604) 249-5101

Registrar and Transfer Agent
Computershare Trust Company of Canada
Calgary, Alberta

Legal Counsel
Lawson Lundell LLP
Vancouver, British Columbia

Auditors
PricewaterhouseCoopers LLP
Vancouver, British Columbia

Stock Exchange Listing / Symbols
Toronto Stock Exchange - ACF.UN

Web-site
http://www.iat-yvr.com

International Aviation Terminals Inc.

COMPANY INFORMATION

Directors
W. John Dawson
Independent Business Advisor
Vancouver, British Columbia

Robert J. Mair, Q.C.
Independent Advisor
Vancouver, British Columbia

Alvin G. Poettcker
President and Chief Executive Officer
UBC Properties Trust
Vancouver, British Columbia

Officers
Michael A. Coke
President and Chief Executive Officer

Nina A. Tran
Senior Vice President and Chief Financial Officer

Rohn T. Grazer
Senior Vice President

Stephen T. Lueck
Senior Vice President

Wayne A. Duzita
Vice President

Margan S. Mitchell
Vice President

Anthony W. Ryan
Secretary

Principal Office
2000 - 5000 Miller Road
Richmond, British Columbia V7B 1K6
Tel: (604) 249-5100
Fax: (604) 249-5101

Legal Counsel
Lawson Lundell LLP
Vancouver, British Columbia

Webster, Hudson & Akerly
Vancouver, British Columbia

Auditors
PricewaterhouseCoopers LLP
Vancouver, British Columbia

Management Company
AMB Property Canada Ltd.
2000 - 5000 Miller Road
Richmond, British Columbia V7B 1K6
Tel: (604) 249-5100
Fax: (604) 249-5101
E-mail: *mmitchell@amb*.com
Web-site: http://www.amb.com

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